

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2007

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COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Net Assets	2
Statement of Profit and Loss and Changes in Net Assets	4
Statement of Cash Flows	6
Notes to the Financial Statements	7
Supplementary Information	11
Computation of Surplus Cash, Distribution and Residual Receipts	13
Single Audit Report on Federal Awards:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14
Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Federal Awards in Accordance with OMB Circular A-133	16
Schedule of Expenditures of Federal Awards	19
Notes to the Schedule of Expenditures of Federal Awards	20
Schedule of Findings and Questioned Costs	21
Schedule of Findings and Questioned Costs	22
Summary Schedule of Prior Audit Findings	24
Certification of Officer	25
Management Agent's Certification	26

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FINANCIAL STATEMENTS

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Board of Directors

Community Development Commission of the City of National City

National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8, of the Community Development Commission of the City of National City ("Commission") as of June 30, 2007 and for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Towers Enterprise Fund of the Commission as of June 30, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2007 on our consideration of the Morgan Towers Enterprise Fund of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

Irvine, California

September 21, 2007

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

June 30, 2007

Assets

Current assets:

1110	Petty cash	\$	175
1120	Cash - operations		4,848
1130	Tenant account receivable		<u>2,804</u>
	Total current assets		<u>7,827</u>

Deposits held in trust:

1191	Tenant security deposits		<u>41,483</u>
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Prepaid expenses:

1240	Prepaid insurance		30,080
1250	Prepaid workers' compensation insurance		3,116
1260	Prepaid mortgage insurance		<u>2,557</u>
	Total prepaid expenses		<u>35,753</u>

Restricted deposits and funded reserves:

1311	MIP impounds		12,722
1312	Insurance impounds		3,881
1321	Reserve for replacements - GMAC		468,165
1341	Residual receipts reserve - GMAC		<u>183,050</u>
	Total restricted deposits and funded reserves		<u>667,818</u>

Capital assets:

1410	Land		212,568
1420	Building		5,488,048
1430	Building equipment - fixed		1,628,033
1440	Building equipment - portable		<u>147,960</u>

Total capital assets 7,476,609

Less: accumulated depreciation (4,019,631)

Net capital assets 3,456,978

Total assets \$ 4,209,859

See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

(Continued)

Liabilities and Net Assets

Current liabilities:

2110	Accounts payable	\$	59,639
2120	Accrued payable		28,536
2320	Mortgage payable - current portion		<u>168,586</u>
	Total current liabilities		<u>256,761</u>

Deposit liabilities:

2191	Tenant security deposits		35,821
2195	Interest on tenant security deposits		<u>5,662</u>
	Total deposits liabilities		<u>41,483</u>

Long-term liabilities

2320	Mortgage payable		3,022,049
Less:	Current portion		<u>(168,586)</u>
	Total long-term liabilities		<u>2,853,463</u>
	Total liabilities		<u>3,151,707</u>

Net assets:

3131	Net assets		<u>1,058,152</u>
	Total liabilities and net assets	\$	<u><u>4,209,859</u></u>

See accompanying notes to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

Year Ended June 30, 2007

Rental revenue:

Rent revenue:

5120	Rent revenue	\$ 497,092
5121	Tenant assistance payments	<u>577,609</u>
	Total rent revenue	1,074,701

Vacancies:

5220	Apartments	(18,436)
------	------------	----------

Concessions:

5250	Rental Concessions	<u>228</u>
	Net rental revenue	<u>1,056,493</u>

Financial revenue:

5410	Interest income - project operations	129
5430	Interest income - residual receipts	5,427
5440	Interest income - reserve for replacement	<u>19,590</u>
	Total financial revenue	<u>25,146</u>

Other revenue:

5910	Laundry revenue	7,394
5993	Miscellaneous revenue	<u>235</u>
	Total other revenue	<u>7,629</u>
	Total revenue	<u>1,089,268</u>

Expenses:

Administrative expenses:

6210	Advertising / Marketing	353
6305	Service coordinator expense	6,000
6310	Office salaries	9,569
6311	Office expenses	19,552
6320	Management fee	42,189
6330	Manager salaries	50,997
6340	Legal expenses	1,090
6351	Bookkeeping/accounting services	640
6370	Bad debt expense	5,750
6391	Resident council expense	<u>1,200</u>
	Total administrative expenses	<u>\$ 137,340</u>

See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

(Continued)

Utilities expense:

6450	Electricity	\$ 40,799
6451	Water	22,483
6452	Gas	37,902
6453	Sewer	<u>45,600</u>
Total utilities expense		<u>146,784</u>

Operating and maintenance expenses:

6510	Janitorial/maintenance payroll	99,210
6515	Supplies	37,097
6520	Contracts	91,187
6525	Garbage and trash removal	11,974
6530	Security contracts/payroll	28,099
6546	Heating/cooling repairs	<u>12,115</u>
Total operating and maintenance expenses		<u>279,682</u>

Taxes and insurance:

6711	Payroll taxes	14,576
6720	Property and liability insurance	33,082
6722	Workers' compensation	20,490
6723	Health insurance and employee benefits	6,005
6790	Miscellaneous licenses	<u>717</u>
Total taxes and insurance		<u>74,870</u>

Financial expenses:

6820	Interest on mortgage payable	202,051
6850	Mortgage insurance premium	<u>15,473</u>
Total financial expenses		<u>217,524</u>

Total operating expenses before depreciation 856,200

Operating profit before depreciation 233,068

6600 Depreciation 223,818

Operating profit 9,250

Net assets at beginning of year 1,048,902

Net assets at end of year \$ 1,058,152

See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Cash Flows

Years Ended June 30, 2007

Cash flows from operating activities:

Rental receipts	\$ 478,884
Interest receipts	25,146
Tenant assistance payments	577,609
Laundry receipts and miscellaneous	7,629
Cash paid from operating expenses	<u>(821,052)</u>
Net cash provided by operating activities	<u>268,216</u>

Cash flows from investing activities

Decrease(increase) in reserve for replacement of depreciable assets	78,957
Acquisition of equipment	<u>(202,340)</u>
Net cash provided (used) by investing activities	<u>(123,383)</u>

Cash flows from financing activities

Mortgage principal payments	<u>(158,005)</u>
Net cash provided (used) by financing activities	<u>(158,005)</u>

Increase (decrease) in cash	(13,172)
Cash - beginning of period	20,999
Cash - end of period	<u>\$ 7,827</u>

Reconciliation:

Change in net assets	9,250
Adjustments:	
Depreciation	223,818
Decrease (increase) in:	
Prepaid expenses	513
Tenant security deposits	(878)
Increase (decrease) in:	
Accounts payable	6,099
Accrued payroll and payroll taxes	28,536
Tenant security deposits	<u>878</u>
Net cash provided by operating activities	<u>\$ 268,216</u>

Supplemental Disclosures:

Interest paid	<u>\$ 202,051</u>
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See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies

(a) Description of Project

Morgan Towers is an apartment project owned and operated by the Community Development Commission of the City of National City (the "Commission") for the purpose of providing housing for low-income elderly and handicapped persons. The primary purpose of the Commission is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City"), and accordingly, is a component unit of the City, although it is a separate legal entity.

(b) Basis of Accounting

The Morgan Towers project is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of proprietary fund types closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues.

Enterprise funds account for operations that provide services to the general public on a continuous basis and are substantially financed by revenues derived from user charges. As an enterprise fund, Morgan Towers uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

(c) Rental Income

Rental revenues are subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development ("HUD").

(d) Restricted Cash and Investments

In accordance with HUD requirements, Morgan Towers maintains the following restricted cash accounts:

Reserve for replacements of \$468,165 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Restricted Cash and Investments, (Continued)

Residual receipts reserve of \$183,050 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can only be expended with HUD's approval.

Reserve for tenant security deposits of \$41,483 represents amounts collected from tenants which are generally returned to the tenants when they vacate the property. A corresponding liability of \$41,483 is included in the accompanying balance sheet.

Reserve for MIP and insurance impounds of \$12,722 and \$3,881, respectively, totaling \$16,603 represent amounts held for the future payment of property and mortgage insurance.

All cash and investments are entirely insured and collateralized.

Details of cash and investments are as follows:

Union Bank Checking Account	\$ 4,848
Bank of America Checking Account	41,483
GMAC Commercial Mortgage	16,603
GMAC Commercial Mortgage	468,165
GMAC Commercial Mortgage	<u>183,050</u>
Total funds in financial institutions	<u>\$714,149</u>

(e) Depreciation

Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

Building	50 years
Improvements and equipment	5 to 41 years

(f) Income Taxes

Neither the Project nor its government owner is subject to income taxes.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Distributions

The Project's regulatory agreement with HUD stipulates, among other things, that the Project will not make distributions of assets or income to any of its officers or directors.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Capital Assets

Capital Assets consist of the following at June 30, 2007:

Land	\$ 212,568
Building and improvements	7,116,081
Furniture and equipment	<u>147,960</u>
	7,476,609
Accumulated depreciation	<u>(4,019,631)</u>
	<u>\$3,456,978</u>

Depreciation expense for the year ended June 30, 2007 was \$223,818.

(3) Net Assets

Net Assets are restricted and accounted for in accordance with criteria prescribed by HUD.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(4) Mortgage Payable

A mortgage loan secured by the property is payable to GMAC. The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2007 was \$3,022,049. The principal portion of long-term debt maturities is as follows:

<u>Year Ended</u>	<u>Amount</u>
2008	\$ 168,586
2009	179,857
2010	191,927
2011	204,776
2012 and thereafter	<u>2,276,903</u>
	3,022,049
Less current portion	<u>(168,586)</u>
Long-term portion	<u>\$2,853,463</u>

The note is insured by HUD and is secured by substantially all property and equipment included in the accompanying balance sheet.

(5) Management Fee

The Morgan Towers Enterprise Fund pays a management fee equal to 4% of cash receipts to Falkenberg/Gilliam & Associates, Inc.

(6) Contingent Liabilities

The Community Development Commission of the City of National City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

(7) Concentrations

The Morgan Tower Enterprise Fund received approximately 53% of its revenues for the year ended June 30, 2007 through subsidies from the U.S. Department of Housing and Urban Development. Without this source of revenues, Morgan Tower Enterprise Fund would have difficulty operating its programs.

SUPPLEMENTARY INFORMATION

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

Year Ended June 30, 2007

(1) Reserve for Replacement and Residual Receipts Account

In accordance with the provisions of the regulatory agreement, restricted cash is held to be used for replacement of property, with the approval of HUD, as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Balance, July 1, 2006	\$548,606	177,623
Monthly deposits (\$3,127 x 12)	37,524	-
Withdrawals	(137,555)	-
Interest earned	<u>19,590</u>	<u>5,427</u>
Balance, June 30, 2007 confirmed by depository	<u>\$468,165</u>	<u>183,050</u>

The reserve for replacement and residual receipts accounts are at GMAC Commercial Mortgage, and are comprised of cash held at Escrow Bank and investments in Treasury Bills, as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Cash	<u>\$ 468,165</u>	<u>183,050</u>

(2) Accounts Payable (Other than Trade Creditors)

There are no accounts payable other than trade creditors.

(3) Compensation of Officers

No compensation was paid to any officer of Morgan Towers.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

(Continued)

(4) Identity-In-Interest Firms

None.

(5) Due to Other Funds

None.

(6) Tenant Security Deposits

Tenant security deposits are held at Bank of America in an account insured by the Federal government that is in the name of the Project. At June 30, 2007, the account consisted of \$41,483 in cash.

(7) Change in Capital Assets Account

<u>Description</u>	<u>Assets</u>		
	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Balance at June 30, 2007</u>
Land	\$ 212,568	-	212,568
Buildings and improvements	6,985,860	130,221	7,116,081
Equipment	75,841	72,119	147,960
	<u>\$7,274,269</u>	<u>202,340</u>	<u>7,476,609</u>
	<u>Accumulated Depreciation</u>		
	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Balance at June 30, 2007</u>
Buildings and improvements	\$3,747,487	211,545	3,959,032
Equipment	48,326	12,273	60,599
	<u>\$3,795,813</u>	<u>223,818</u>	<u>4,019,631</u>

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY
**COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND
RESIDUAL RECEIPTS**

PROJECT NAME Morgan Towers		FISCAL PERIOD ENDED: 6 / 30 / 07	PROJECT NUMBER 129-38013-PB-WAH-L8
PART A - COMPUTE SURPLUS CASH			
CASH	1. Cash (Accounts 1110, 1 120, 1191, 1192)	\$ 46,506	
	2. Tenant subsidy vouchers due for period covered by financial statement	\$	
	3. Other (describe)	\$	
	(a) Total Cash (Add Lines 1, 2, and 3)		
CURRENT OBLIGATIONS	4. Accrued mortgage interest payable	\$	
	5. Delinquent mortgage principal payments	\$	
	6. Delinquent deposits to reserve for replacements	\$	
	7. Accounts payable (due within 30 days)	\$59,639	
	8. Loans and notes payable -- (due within 30 days)	\$	
	9. Deficient Tax Insurance or MIP Escrow Deposits	\$	
	10. Accrued expenses (not escrowed)	\$28,536	
	11. Prepaid Rents (Account 2210)	\$	
	12. Tenant security deposits liability (Account 2191)	\$41,483	
	13. Other (Describe)	\$	
(b) Less Total Current Obligations (Add Lines 4 through 13)		\$ 129,658	
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))		\$ (83,152)	
PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS			
LIMITED DIVIDEND PROJECTS	1. Surplus Cash	\$	
	2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$	
	2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$	
	2c. Distributions Paid During Fiscal Period Covered by Statement	\$	
	3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$	
4. Amount Available for Distribution During Next Fiscal Period		\$	
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)		\$	
PREPARED BY		REVIEWED BY	
LOAN TECHNICIAN		LOAN SERVICER	
DATE		DATE	

(See Reverse for Instructions)

HUD-93486 (12-80)

SINGLE AUDIT REPORT ON FEDERAL AWARDS

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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Directors
Community Development Commission of the City of National City
National City, California

We have audited the financial statements of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission"), as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of Compliance and Internal Control Findings as item 2007-3.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

Board of Directors
Community Development Commission of the City of National City
Page Two

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiencies described in the accompanying schedule of Compliance and Internal Control Findings as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

This report is intended solely for the information and use of the Commission's Board of Directors, management, and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
September 21, 2007



Mayer Hoffman McCann P.C.

An Independent CPA Firm

Conrad Government Services Division

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Community Development Commission of the City of National City
National City, California

Compliance

We have audited the compliance of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of Compliance and Internal Control Findings as item 2007-3.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Commission as of and for the year ended June 30, 2007, and have issued our report thereon dated September 21, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Board of Directors
Community Development Commission of the City of National City
Page Three

This report is intended for the information and use of the Commission's Board of Directors, management, and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McClann P.C.

Irvine, California
September 21, 2007

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Financial Assistance Expended</u>
U.S. Department of Housing and Urban Development:			
Section 8 Housing Assistance Payments Program	14.871	CA 60006011	<u>\$ 577,609*</u>
Supportive Housing for the Elderly	14.157	CA 60006011	<u>\$3,022,049*</u>

* Major program.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Morgan Towers Enterprise Fund that are subsidized under the federal program of federal agency providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule.

(b) Basis of Accounting

The expenses included in the accompanying schedule were reported on the accrual basis of accounting.

(c) Subrecipients

There were no payments of federal funds to subrecipients for the year ended June 30, 2007.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance that is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was U.S. Department of Housing and Urban Development CFDA #14.871 – Section 8 Housing Assistance Payments Program and CFDA #14.157 – Supportive Housing for the Elderly.
8. The dollar threshold used to distinguish Type A and Type B program was \$300,000.
9. The auditee was considered a low risk auditee as defined by OMB Circular A-133 for the year ended June 30, 2007 for purposes of determining major programs determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

Findings 2007-1, 2007-2 and 2007-3 described in the accompanying Compliance and Internal Control Findings are required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There are no auditors' findings to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Compliance and Internal Control Findings

Year Ended June 30, 2007

2007-1 Capital Assets Recordkeeping

During our audit, we noted that Morgan Tower does not have fixed asset tracking method that would identify additions and dispositions of fixed assets. It appears that Morgan Tower is relying upon our audit to identify fixed assets additions. In addition, Morgan Tower does not have a routine physical inventory count of its fixed assets, and there was no information provided by management to identify the amount of fixed assets that have been replaced or disposed during the fiscal year.

Recommendation:

We recommend that management should review purchases during the year and properly capitalize fixed assets purchases in the accounting records. In addition, a physical inventory should take place at least once every two year to ensure assets that have been replaced or no longer functional be properly removed from the accounting records.

2007-2 Adjustment Detected by the Audit Process

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in his report of significant control deficiencies any material adjustments detected by the audit process. For the year ended June 30, 2007 material adjustments detected by the audit process were as follows:

- Morgan Tower Enterprise Fund made purchases during the year such as refrigerators, carpet replacements, and furniture that should have been capitalized as fixed assets. During our audit, we detected that capital asset purchases amounted to \$177,579 were recorded as expenses rather than capital assets.

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Compliance and Internal Control Findings

(Continued)

2007-3 Housing Quality Inspection

HUD requires that unit leased to tenants must be inspected at least annually to determine if the unit meets Housing Quality Standards. For units that fail to meet Housing Quality Standards, owner is required to correct any life threatening deficiencies within 24 hour after inspections and all other HQS deficiencies within 30 calendar days or within a specified approved extension. During our audit, we noted that one out of ten units selected for testing had certain deficiencies reported however the deficiencies were not resolved within 30 days.

Recommendation:

We recommend that life threatening deficiencies identified during annual housing quality inspections should be corrected within 24 hour after inspections and all other HQS deficiencies be corrected within 30 days after inspections.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2007

There were no findings disclosed in the single audit report for the year ended June 30, 2006.

September 21, 2007

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund**

HUD Project No. 129-38013-PB-WAH-L8

CERTIFICATE OF OFFICER

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: _____

Community Development Commission
of the City of National City

By: _____
Executive Director

September 21, 2007

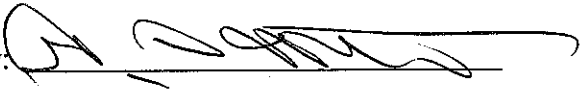
**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund**

HUD Project No. 129-38013-PB-WAH-L8

MANAGEMENT AGENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: 10-9-07 Falkenberg/Gilliam & Associates, Inc.

By: 

Federal Identification No. 95-3313687

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